

FDIC State Profile

Fall 2005

West Virginia

West Virginia continues to add jobs at a modest pace.

- West Virginia's modest economic expansion continues, although below the national pace in second quarter 2005 (see Chart 1). Nonetheless, gains were robust enough that the state had returned to its pre-recession employment levels earlier this year (see Chart 2).
- Economic growth varied significantly across West Virginia in second quarter 2005. **Morgantown's** employment rose nearly 3 percent from a year earlier, while **Parkersburg's** payrolls remained flat. Weakness also persisted into early second quarter 2005 in rural counties in north-central areas of the state where year-ago job losses were prevalent.
- The sharp rise in energy prices over the past few years has been a boon for West Virginia's important coal mining industry. The state, which is the nation's second largest coal producer after Wyoming, saw spot prices nearly double over the past two years. Subsequently, industry employment in the state increased by more than 15 percent to 17,000 during the past two years as companies sought experienced miners.
- Recent hurricanes likely will have indirect implications leading to higher energy costs, supply and distribution disruptions, and the temporary or permanent absorption of residents dislocated by the storm.

Residential real estate has played a key role.

- Despite accounting for less than 3 percent of total employment, homebuilding has played an important role in West Virginia's economic recovery. Between the end of 2001 and 2004, residential construction-related employment directly accounted for one-third of the net gain of 1,870 in private employment.¹ Indirectly, the industry's importance has been further amplified by the ripple effect it has caused in other sectors of the economy.
- Homebuilding in West Virginia continued at a comfortable pace through the first half of 2005, with

Chart 1: Job Growth in West Virginia Has Cooled

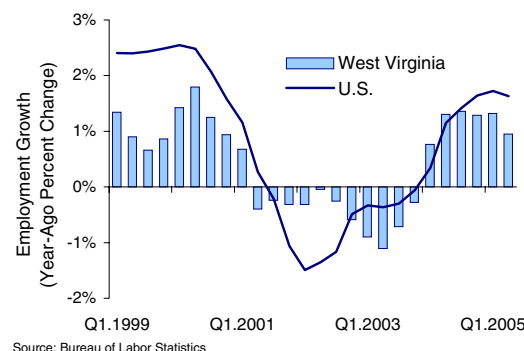


Chart 2: Employment in West Virginia Has Surpassed Its Pre-Recession Peak

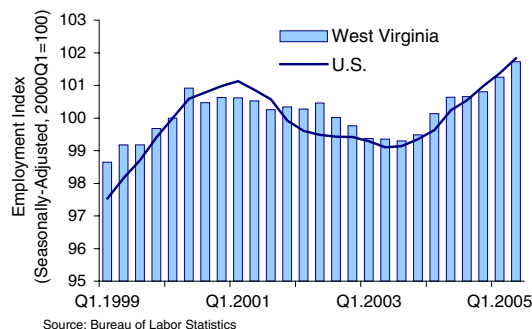
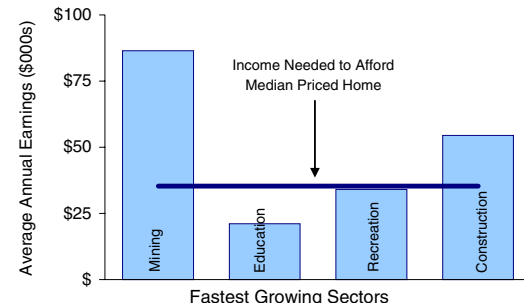


Chart 3: Low Incomes in Some of West Virginia's Fastest Growing Sectors May Constrain Affordability



¹Residential construction-related employment includes residential construction and specialty contractors; mortgage lenders and brokers; and residential real estate agents, property managers, and appraisers.

permit issuance up nearly 8 percent from a year earlier. Although home prices rose at nearly the same pace, the rate was less than the national average. Still, affordability issues in some areas may persist as average earnings in two of the four fastest growing sectors of the economy in 2004 fell below the income level needed to purchase a median priced home on conventional terms (see Chart 3).

- According to the Office of Federal Housing Enterprise Oversight, home prices appreciated 9.0 percent for the 12 months ending June 30, 2005. Modest appreciation may have kept the traditional relationship between home prices and apartment rents intact, unlike in some other Southeast markets. Since 2001, the price-to-annualized rent ratio has remained largely stable (see Chart 4).

Small business performance measures vary.

- The net number of small businesses in West Virginia grew by less than 1 percent in 2004.² The booming residential real estate market is influencing the growth of some small businesses. For example, landscaping and lawn service firms in the state, which have an average of seven employees, increased jobs by 7.1 percent in 2004, much higher than the 1.5 percent increase in overall private payroll jobs.
- Overall business lending at community banks in West Virginia increased over the past two years after a large decline in the early part of the decade.³ However, small business loans fell by about 1 percent from a year ago, which contrasts with the 3.7 percent national growth rate for all commercial banks. The share of small business loans as a percentage of all business loans has generally been stable over the past few years (see Chart 5).

Community banks continue their solid performance.

- Although overall banking conditions at West Virginia community banks were solid, profitability continued to weaken as return on assets (ROA) fell for a second time in as many periods on higher noninterest expenses. ROA dropped slightly year-over-year to 0.91 percent at June 30, 2005. Despite an increase in funding costs, net interest margins improved because of strong loan growth. After relatively flat performance the past few years, margins rose to 4.13 percent in second quarter 2005, up from 3.99 percent two years prior.

A shift in new deposit funding may lead to higher costs.

- West Virginia community banks may experience higher funding costs as the mix of new deposits is shifting to

higher cost time deposits (see Chart 6). Depositors are moving into higher yielding products as the differential between holding money in lower yielding, but more liquid, transaction or money market deposit accounts has widened with the recent increase in short-term interest rates. The change in preference by depositors has contributed to the rise in the cost of deposits to 1.96 percent for the 12 months ending June 30, 2005, from 1.83 percent a year ago.

Chart 4: Charleston Apartment Rents Have Kept Pace with Home Price Appreciation

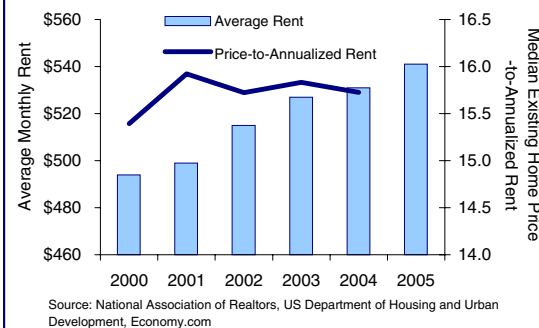


Chart 5: The Share of Small Business Loans Has Fallen at West Virginia Community Banks

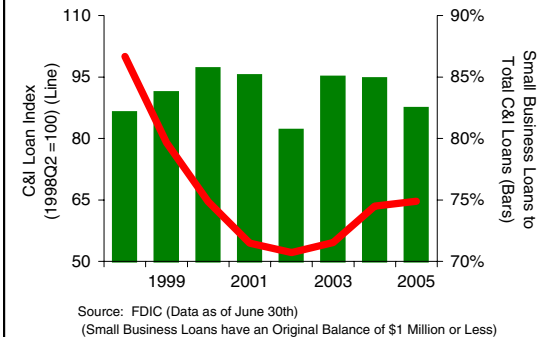
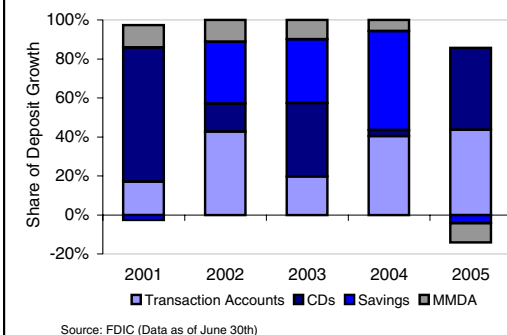


Chart 6: New Deposit Funding Mix May Lead to Higher Costs at West Virginia Community Banks



²"Small Business Profile: West Virginia," U.S. Small Business Administration, Office of Advocacy, 2004 and 2005.

³Community banks are insured commercial banks with assets of \$1 billion or less.

West Virginia at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.0%	1.3%	1.3%	1.2%	-0.7%
Manufacturing (8%)	-0.5%	-1.0%	-2.4%	-2.3%	-6.0%
Other (non-manufacturing) Goods-Producing (8%)	6.3%	9.6%	8.4%	6.7%	-3.4%
Private Service-Producing (64%)	0.7%	1.0%	1.3%	1.3%	0.2%
Government (19%)	0.3%	0.2%	0.3%	0.4%	-0.2%
Unemployment Rate (% of labor force)	4.8	5.0	5.4	5.3	6.0

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.1%	6.5%	6.6%	5.3%	2.4%
Single-Family Home Permits	2.4%	8.5%	24.4%	16.8%	11.8%
Multifamily Building Permits	-37.0%	-8.4%	-37.8%	12.9%	-6.5%
Existing Home Sales	21.7%	21.2%	56.3%	24.6%	2.8%
Home Price Index	9.0%	8.5%	6.3%	6.8%	4.2%
Bankruptcy Filings per 1000 people (quarterly annualized level)	8.17	7.22	6.53	6.35	5.96

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	71	72	74	72	74
Total Assets (in millions)	20,560	20,466	19,259	19,846	18,978
New Institutions (# < 3 years)	1	1	2	1	3
Subchapter S Institutions	4	4	4	4	3

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.95	1.87	2.23	2.17	2.41
ALLL/Total Loans (median %)	1.15	1.15	1.16	1.16	1.14
ALLL/Noncurrent Loans (median multiple)	2.30	2.01	1.35	1.95	1.58
Net Loan Losses / Total Loans (median %)	0.05	0.06	0.04	0.16	0.17

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.93	9.91	9.69	9.80	9.45
Return on Assets (median %)	1.02	0.99	0.93	0.95	0.92
Pretax Return on Assets (median %)	1.48	1.43	1.36	1.38	1.32
Net Interest Margin (median %)	4.24	4.09	4.14	4.23	4.12
Yield on Earning Assets (median %)	6.03	5.76	5.58	5.76	5.93
Cost of Funding Earning Assets (median %)	1.72	1.64	1.52	1.53	1.81
Provisions to Avg. Assets (median %)	0.12	0.13	0.13	0.13	0.17
Noninterest Income to Avg. Assets (median %)	0.53	0.51	0.51	0.50	0.51
Overhead to Avg. Assets (median %)	2.97	2.97	2.98	3.00	2.99

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	66.8	66.5	65.5	66.3	63.7
Noncore Funding to Assets (median %)	15.8	15.8	15.2	14.9	14.0
Long-term Assets to Assets (median %, call filers)	28.5	26.9	29.8	25.8	28.9
Brokered Deposits (number of institutions)	11	12	10	11	10
Brokered Deposits to Assets (median % for those above)	4.0	2.7	1.8	1.2	0.8

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	69.3	65.5	68.9	70.6	66.5
Commercial Real Estate	158.0	151.5	156.0	158.6	151.2
<i>Construction & Development</i>	13.6	14.4	11.4	13.4	10.7
<i>Multifamily Residential Real Estate</i>	1.2	1.5	1.1	1.2	1.0
<i>Nonresidential Real Estate</i>	134.3	124.1	117.8	123.2	117.8
Residential Real Estate	288.1	283.2	277.8	273.8	278.3
Consumer	73.1	72.7	78.7	74.3	87.0
Agriculture	1.8	1.8	2.1	1.8	2.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Charleston, WV	23	4,229	< \$250 million	60 (84.5%)
Huntington-Ashland, WV-KY-OH	28	3,453	\$250 million to \$1 billion	8 (11.3%)
Hagerstown-Martinsburg, MD-WV	16	2,641	\$1 billion to \$10 billion	3 (4.2%)
Wheeling, WV-OH	15	2,476	> \$10 billion	0 (0%)
Parkersburg-Marietta, WV-OH	24	2,179		